

Update on Trade-Related Elements of The President's Comprehensive Plan for Steel

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Senate Committee on Finance
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Mr. Chairman, Senator Moynihan and Members of the Committee, I appreciate the opportunity to discuss with you today the steel import surge, its impact on the U.S. market and industry, and the Administration's response.

INTRODUCTION

Last year, as we all know, steel imports rose sharply and rapidly, threatening, within a matter of months, the stability of our domestic industry and the jobs of many of its employees. In the April through November period, imports ran some 50 percent over historic levels across the industry, and at much higher levels in several key product sectors.

This import surge occurred in the context of the larger Asian and Russian financial crises, as a result of weakened demand for steel in Asian and other markets. Fairness demands that the U.S. steel industry, its workers, and their families not be asked to carry the burden of the financial crisis alone. Neither can the crisis become an excuse for our trading partners to adopt predatory export policies in steel or any other sector. Thus President Clinton is personally committed, as he has said both here and abroad, and as he repeated in his State of the Union Address, to ensure that our trading partners act fairly, and will continue to enforce our domestic trade laws to ensure this.

The Steel Report which the President sent to the Congress on January 7 provided a comprehensive and forceful set of actions to deal with the steel import surge and the associated unfair trade issues. This action plan is working and we are seeing the first signs of recovery. The Administration is determined to follow through until stability has been restored to the U.S. steel market.

Let me also stress that our efforts to solve the steel crisis have been, and must remain, within the framework of our laws and our international commitments. To begin with, this framework is adequate to the task. And second, by sticking to the established rules, we can help ensure that the Asian crisis does not lead to a cycle of retaliation and protectionism which would badly damage our economy as a whole, and be especially dangerous to farmers, ranchers and manufacturing exporters including steel-intensive exporters, who are already suffering due to weaker demand for our products abroad. This is especially important as we work to ensure that the European Union lives up to its commitments in the banana and beef cases at the WTO.

THE PRESIDENT'S ACTION PLAN

The President's steel action plan was developed with the benefit of advice and suggestions from industry and labor. It can be found on the USTR web page at www.ustr.gov/reports/steel99.pdf. The report outlines in detail steel import trends, their economic impact, and our response. This action plan includes four trade-related elements:

1. Vigorous and expeditious enforcement of laws to counter trade practices;
2. Bilateral efforts to address unfair trade practices at their sources;
3. Support for a strong safeguards law and for expeditious Section 201 investigations;
4. Creation of an early warning system for steel import monitoring.

The initiatives are the foundation for a comprehensive resolution of the steel import crisis in a balanced manner which will not damage other U.S. industries and workers by exposing them to retaliation or supply shortages. These principles have been translated into specific actions which are beginning to provide meaningful relief. We are confident that continued vigorous implementation of the President's steel action plan will bring about the result we all desire: a stable and competitive U.S. steel market where U.S. and foreign producers can compete fairly. In the days, weeks and months ahead, we will follow through on progress being made and take additional targeted actions where market conditions and imports warrant, in a manner consistent with our nation's overall economic interest.

Let me now turn to a more detailed review of the import surge, the current market situation, the status of our efforts, and next steps.

STEEL IMPORT TRENDS AND MARKET CONDITIONS

A. The 1998 Import Surge

I will begin by reviewing the trends in our steel trade and market over the past year.

Last year, 1998, witnessed the largest level of steel imports, the largest and fastest import growth, and the largest import penetration in history. Based on final import statistics for December, our 1998 steel imports were 37.7 million metric tons (MMT) -- an increase of 33.3 percent, or 9.4, MMT over 1997. Steel import penetration rose from 23.8 percent in 1997 to 30.1 percent in 1998. This level exceeded U.S. domestic needs, causing a glut in the market and severe price suppression. Between 1997 and 1998 U.S. steel shipments fell 3.5 percent, from 96 to 92.7 MMT. Labor statistics show a sharper than usual decline in steel employment, from 242,000 in January of 1996 to 236,000 workers in January 1997 and 1998, to 226,000 in January 1999.

Three countries -- Japan, Korea, and Russia -- accounted for the great bulk -- 76.4 percent -- of this import surge. To update the information from the President's January Steel Report, in

1998:

- Japan was the single largest source of steel imports at 6.1 MMT, up 163.4 percent or 3.8 MMT from 1997, accounting for 40.3 percent of the import growth;
- Russia was the second largest supplier at 4.8 MMT, up 58.9 percent or 1.8 MMT, accounting for 18.9 percent of the import growth; and
- Korea was the third largest source of the growth, with imports at 3.1 MMT, up 109.3 percent or 1.6 MMT, accounting for 17.3 percent of the import growth.

While these three countries accounted for the bulk of the steel import growth, imports from a number of other countries also rose substantially. In 1998, the United States imported steel from 68 countries (albeit in very small quantities from some). Steel imports from a dozen or so “second-tier” suppliers reached between 100,000 and 900,000 metric tons, and have potential to increase further. Notable import growth occurred from: the United Kingdom, Australia, Ukraine, South Africa, China, Indonesia, Taiwan, India, Luxembourg, Moldova, Romania, Latvia, and Kazakstan. In addition, the European Union as a whole remains the single largest source of U.S. steel imports, supplying 6.6 MMT to our market in 1998, although overall steel imports from the EU were 4 percent below 1997 levels.

By product, carbon flat rolled steel was the single largest source of the import surge, accounting for 46.5 percent of the overall import increase. However, sharp import increases occurred in a range of other products, including heavy structurals, steel piling, light shapes, reinforcing bars, line pipe, pressure tubing, etc.

In sum, we saw import and market disruption levels of unprecedented proportions in the U.S. steel market beginning in April of 1998. However, due to the Administration’s execution of the steel action plan, the first tentative signs of recovery are beginning to emerge.

B. First Signs of Recovery

The December 1998 steel import data provided the first indication that market conditions may have bottomed out, and that recovery can be anticipated.

At 2.6 MMT, December imports reflected a substantial decline from the average monthly import levels of 3.5 MMT from April through November 1998 import surge period. Further progress was evident in January, with imports declining further to 2.48 MMT -- about 5% above the 1997 monthly average level of 2.36 MMT.

The December and January decreases were concentrated in carbon flat rolled products from Japan and Russia, which are subject to the ongoing antidumping investigation, indicating that actions taken by the industry, labor, and the Administration are bearing fruit. When

compared to November levels, January imports of these products declined 67 percent. Declines were sharpest from the three countries under investigation, with imports from Japan down 77 percent, from Russia down 90 percent, and from Brazil down 84 percent. Imports of this product from Japan and Russia have basically ceased. The 1998 U.S. import increase of this product was 4.4 MMT (from 5.7 MMT in 1997 to 10.1 MMT in 1998). In 1998 U.S. imports of this product from Russia and Japan totaled 5.9 MMT. Therefore, a substantial reduction of imports from these two countries will more than offset the growth which has occurred. Nevertheless, imports of carbon flat rolled steel from a range of other countries are increasing, and are being closely watched by the interagency import monitoring team with a view to ensuring fair trade.

This type of short-term import decline does not by any means resolve the entire steel problem. A glut of steel products is still evident in the U.S. market, and high import levels of other products persist. However, the December and January declines are significant steps, and a clear indication that President's steel action plan is working.

Several other market indicators are also positive. Steel demand in the United States remains strong and new orders are reportedly improving. In late January, a number of companies announced price increases of 5 percent to 8 percent per net ton (\$20 to \$30) on hot-rolled, cold-rolled, and coated sheets for second quarter shipments. Analysts believe these increases will likely succeed, as prices for these products are already quite depressed (down an average of 21 percent since May 1998), and as the import supply is being reduced due to ongoing unfair trade cases.

In January, U.S. raw steel production rose 5.1 percent from December while the capacity utilization rate rose to 77.2 percent from 74.8 percent over the same months. The most recent data for capacity utilization for the week of March 13, 1999 show another improvement to 78.8 percent. Nevertheless, these rates are still low when compared to the operating rate of 93 percent in mid-March 1998.

Reflecting the drop in imports, import penetration (imports as a percent of apparent consumption) fell to 28.0 percent in January 1999, from 36.6 percent in November of 1998. Still, this level is significantly above the 23.4 percent level recorded in December 1997.

TRADE ACTION PLAN

These are some initial encouraging signs that the President's steel action plan is working. Continued forceful pursuit of the policies and actions announced, and active monitoring of import and market conditions with a view to additional, targeted action, where needed, will be key in reestablishing the health and stability of the U.S. steel market. Following is an update on the trade related aspects of the President's action plan.

A. Unfair Trade Laws

The first and essential element of the steel action plan is vigorous and expeditious

enforcement of the antidumping law and countervailing duty laws by the Commerce Department.

As you know, fully one third of some 300 antidumping and countervailing duty orders now being administered by the Department of Commerce address steel products. This remedy is well suited for the steel sector, in which the industry's cyclical nature and the high level of government intervention and support overseas have led to a high incidence of unfair trade. The industry is a strong proponent of this trade remedy, and has used it effectively to gain relief from unfairly traded and injurious imports.

That has been the case in this crisis. The Commerce Department's expedited investigations and the critical circumstances findings have resulted in relief for U.S. carbon flat rolled producers in record time, with retroactive effect to 90 days prior to the Commerce Department announcement of the preliminary dumping margins. Thus, in the case of Japan, the antidumping cash deposit and bonding requirements became effective only some six weeks from the joint industry and union filing of the dumping case. The trade laws have worked expeditiously to provide U.S. industry and workers with relief against unfair trade. Secretary Daley will elaborate on this element of the President's action plan.

The U.S. steel industry and workers filed additional dumping and countervailing duty petition on February 16th with respect to carbon cut-to-length steel plate imports from eight more countries which may have taken advantage of antidumping relief applied to products from Russia, Ukraine, China and South Africa. The Commerce Department initiated these investigations on March 8th.

Let me also note that January's import figures show a sharp rise in steel imports from China, from 60,000 to just under 100,000 tons. This is still a small total, making up about 4% of our steel imports for the month. However, the sharp rate of increase is a cause for concern. Secretary Daley will raise this issue during his upcoming visit to China. As the Secretary has said, we will not allow others to jump into a vacuum caused by the elimination of dumped steel from Japan or other countries.

In sum, the combined industry, labor, and Administration effort to pursue and implement actions to counter unfair trade are providing relief, in a manner fully consistent with U.S. international obligations.

B. Bilateral Action

Another key element of the President's steel action plan provides for bilateral initiatives with countries which are the key sources of the steel import growth: Japan, Russia, and Korea. Substantial progress has been made on this front as well.

1. Japan – The largest source of steel import growth last year was Japan. As reflected in the President's Steel Report to the Congress, in January the Administration informed the Japanese

Government that we expect steel imports from Japan to revert to pre-crisis levels. We also informed Japan that, if such a roll-back does not occur in short order, the Administration would self-initiate trade action to ensure a reduction of imports and to prevent further injury to U.S. steel producers and workers. Thus, the roll-back will be enforced, if necessary, through Administration trade action. Our intent is to act forcefully if normal trade patterns are not promptly restored.

Our interagency steel import team closely monitors and analyzes both Japanese monthly export data and U.S. monthly import data for all major steel categories. We are reviewing trends, levels, and U.S. market conditions, and in consultation with U.S. producers, we are assessing where trade action may be appropriate. Some of the trends are encouraging, but important concerns remain. Japan's exports of steel to the United States in December 1998 fell to 363,000 metric tons, and in January 1999, Japan's exports declined to 233,000 metric tons. This compares to the average monthly export rate of 680,000 tons from April through October 1998, and the peak of 908,000 tons in Japan's September exports to the United States. Japan's December and January steel exports of hot rolled sheet declined to a negligible level. Our product-specific monitoring of steel imports from Japan continues to ensure that our expectations are fully met.

At the same time, in our broader trade and economic relationship with Japan, we are pressing for the creation of domestic demand-led growth in Japan through fiscal stimulus, broad deregulation, financial reform, and meaningful market-opening measures. If fully implemented, these policies would create substantial opportunities for exporters and workers in America, other Pacific economies, and for Japanese workers and companies. Decisive action by the Government of Japan to implement such reforms are key to relieving global pressures which are at the root of the steel import crisis in the United States. We are looking to compile a substantive package of deregulation measures by Prime Minister Obuchi's visit to the United States in May.

2. Russia -- On February 22nd, Secretary Daley announced the initialing of a comprehensive set of steel agreements with Russia -- a suspension agreement on the carbon flat rolled dumping case, and a broader agreement under the market disruption article of the 1992 U.S. bilateral trade agreement with Russia. These agreements would roll back and cap steel imports from Russia, the second largest source of our 1998 steel import surge.

The suspension agreement would ensure that: a) there will be a zero quota -- no imports from Russia of flat rolled products covered by the investigation for a period of six months, and b) the annual quota which goes into effect at that time, 750,000 metric tons, is 78.4 percent below our 1998 imports of this products from Russia and 58.4 percent below our 1997 imports of this product from Russia. The quota basically rolls back imports from Russia to their 1996 level. In addition, there would be minimum price and strict monitoring provisions.

The second, broad, steel agreement with Russia would cover imports of all other steel products not already subject to quota, as well as pig iron. It contains quotas on sixteen products,

and rolls back imports of these products to 1997 levels or below, reducing them by 68 percent from the 1998 import level.

Both agreements have been subject to public comment, and all views will be considered. The key objective here is to offset any unfair trade margins, and to help restore predictability and stability in the U.S. market. This comprehensive approach to the Russian issue is particularly appropriate because the European Union had already negotiated a similar agreement with the Russian government which may have caused diversion of Russian steel to the U.S. market, something U.S. industry was particularly concerned about. This comprehensive approach also envisages opportunities for regular dialogue between U.S. and Russian government and steel industry representatives which can be used to provide technical assistance in the transformation of the Russian steel sector to market-based principles, and to sound environmental and managerial practices. We welcome U.S. industry and labor involvement in this dialogue.

3. Korea -- The third largest source of our steel import growth was South Korea. The President's Steel Report announced that our dialogue with Korea on steel trade and policy issues would be expanded and expedited. A Korean government and industry steel delegation visited Washington in late January and provided an update on government and industry efforts to restructure and privatize Korea's steel sector. The Administration, as well as U.S. steel industry and members of Congress, have had a longstanding concern with the Korean government's involvement in the steel sector through industrial policies which have favored steel and steel-using industries, and encouraged their growth and export-oriented capacity expansion, through incentives and directed lending. Hanbo Steel is the best-known example, but there are other examples as well.

In August of 1998 USTR exchanged letters with the Korean Ministry of Foreign Affairs and Trade which are aimed at ensuring that the sale of Hanbo Steel, which is in bankruptcy, is taking place through a market-driven, open, and transparent process in accordance with international practices. Hanbo's production of hot-rolled sheet has ceased pending its sale, Bankers Trust has been engaged to manage the sale.

In addition, the Korean government has offered general assurances that steel-related practices which have resulted in excess capacity in Korea and have been the cause of longstanding trade friction between our countries, have been abandoned. Accordingly, we have included in our steel discussion with Korea a set of objectives to ensure that real and substantive progress is made toward permanently getting the Korean government out of the steel business. Our broad objectives in these discussions include:

- a) Having the Government of Korea address anticompetitive activity in the Korean steel sector and ensure open competition inside Korea and in international trade;
- b) Expeditious, complete, and market-based privatization of Korea's largest steel producer, POSCO ;

- c) Implementation of the Hanbo sale and operation of the company on arms-length terms outlined in our August exchange of letters with Korea, in a manner which will not engender government involvement (we sent a formal Report on this issues associated with Hanbo to Congress last December);and
- d) Fair trade in steel products.

In our view, these are reasonable expectations. They are consistent with stated policies of the Korean government, and they must be implemented fully if we are to avoid continued trade friction in steel.

B. Section 201 Safeguards

A third key element in the President's steel action plan is strong support for an effective safeguards provision in U.S. trade law, including his willingness to urge the ITC to expedite any section 201 safeguards investigations concerning steel.

U.S. industry and workers filed a petition for relief on steel wire rod under Section 201 in December of last year. The International Trade Commission (ITC) is now conducting an inquiry to establish whether injury has occurred or is being threatened in this segment of the industry. If the ITC reaches an affirmative conclusion under its legal procedures, the President will have the option to decide whether relief is appropriate. If a remedy is appropriate, he will have wide discretion to fashion it in a manner which is appropriate for this industry.

Because of its scope and flexibility, Section 201 is an extremely important and valuable trade remedy tool. As with the unfair trade remedies, the decision on when and whether to invoke it lies foremost with U.S. industry and workers. The Administration has met with steel industry and labor representatives to review market and import trends and to review assess relief options. Additional meetings will be held in light of the publication today of the preliminary import statistics for January.

C. Import Monitoring and Early Warning

The fourth trade-related point in the President's steel action plan is the decision to release preliminary steel import data in order to create an early warning import monitoring system. Under this unprecedented new data release program, steel import statistics are made public almost a month sooner than the regular release schedule, some three weeks after the end of each month. Import trends are reviewed at senior levels of government and discussed with industry and labor representatives to assess their impact and options for import relief.

These import data releases have been invaluable in providing both the government and the industry with a real-time sense of import trends. Each month's data are carefully analyzed by USTR and Commerce Department experts and the interagency import monitoring team to review

trends by country and by product category in terms of volume and per unit import value. These trends are reviewed in light of most current information on U.S. market and industry developments.

Our particular focus at this time is threefold: 1) to carefully monitor imports from Japan in light of the President's announcement that he expects imports from that country to revert to pre-crisis levels; 2) monitoring import trends for product categories that had been the subject of sharp import increases, to ascertain whether meaningful declines are underway; and 3) monitoring of imports from second-tier suppliers and the EU.

LEGISLATIVE INITIATIVES

In summary, our action plan, and our trade laws are in place, and beginning to provide the relief needed and deserved by U.S. steel producers and workers. Proposed legislation such as H.R. 975, which would attempt to resolve these issues through the legislated imposition of import quotas or similar import restrictions, would be neither in our national interest, nor that of our steel industry. While well intentioned, this type of action could create additional havoc in the U.S. market and undermine substantial progress we have made to date.

Unilateral imposition of quotas or import bans would ignore the fact that we already have effective trade remedy tools which are producing results. As I have discussed above, we have seen a substantial decline in imports in December and January; we have announced preliminary dumping and countervailing duties against unfair trade in record time; we have seen a substantial drop of imports from Japan; and, we have initiated a comprehensive set of agreements with Russia. Additional trade cases, both under the unfair trade laws and under the safeguards mechanism (section 201) are pending, and the Administration has affirmed its support for their fair and expeditious review. Our action plan and our trade laws are working as Congress intended, providing the relief needed and deserved by U.S. steel producers and workers. The crisis is by no means over, but we are seeing signs of recovery. Continued implementation of the President's action plan will ensure further progress. In particular, we are determined to carry on with our active import monitoring program to ensure that these positive trends continue, and that other countries do not increase their exports to undermine progress we have made.

By contrast, legislated imposition of trade remedies for steel outside of the established U.S. trade laws can backfire by inviting trade retaliation by affected trading partners and causing damage to export-oriented U.S. industries and workers, some of which may already be adversely affected by reduced demand abroad. While trying to assist U.S. steel workers, quotas which are legislated outside of our trade laws could harm U.S. steel interests by prompting retaliation against export oriented US steel-using industries, such as autos and machinery, or against vulnerable industries such as agriculture which rely on a strong, rules-based trading system.

Finally, legislated solutions which do not arise from the type of careful ITC analysis and interagency and industry consultation process can create severe distortions in the market which

can add to, rather than resolve, economic problems. When not carefully considered, quotas can create shortages for user industries or result in excessive price-hikes. As our economy continues to grow, demand for steel products remains strong. Imposing quotas at this stage, when it looks like the market is beginning to stabilize could have the unintended effect of causing a panic in the market which could reverberate throughout the U.S. economy and undermine our nation's economic growth.

Other legislative proposals to improve U.S. trade laws are being reviewed by the Administration. For example, we are currently in the process of reviewing the proposals concerning Section 201. Section 201 is one of our most important trade laws and is critical for ensuring that our industries can make a positive adjustment to import surges when they occur. We fully support a strong, effective safeguards law which does not require industries seeking relief to satisfy conditions beyond our international obligations. We will review with Congress any proposals toward that end.

CONCLUSION

In conclusion, let me reiterate that prompt restoration of a stable U.S. steel market remains a top U.S. trade priority, and the President's steel action plan is achieving the goal. Vigorous and expedited enforcement of U.S. trade laws has resulted in substantial relief from unfair trade. Imports from Japan have been rolled back almost to the pre-crisis levels. A comprehensive agreement has been initialed with Russia which will substantially roll back imports and prevent new surges. Progress has been made in our dialogue with Korea, and additional results are anticipated shortly. Active import monitoring is underway based on the unprecedented early import data releases, and the Administration is committed to do more as market and import trends warrant. Prices and capacity utilization are rising.

We are not ready to declare that the problem has been solved. We are fully aware of recessionary conditions and excess capacity abroad, and of the fact that the strong U.S. market will continue to act as a magnet, while the temptation to trade unfairly will persist. Nevertheless, we are pleased that actions taken to date have resulted in improvements, and we are committed to continue to vigorously enforce the President's comprehensive steel action plan. Working hand-in-hand with U.S. industry, labor, and Congress, we believe positive results will be achieved without jeopardizing broader U.S. economic interests.

Thank you for providing me with this opportunity to testify.